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FISCAL IMPACT STATEMENT

LS 7825

BILL NUMBER: SB 327

NOTE PREPARED: Jan 5, 2005

BILL AMENDED:

SUBJECT: Property Tax.

FIRST AUTHOR: Sen. Hume

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill delays until 2006 implementation of annual adjustments of real property tax assessments. It amends the factors to be included in the annual adjustment rule of the Department of Local Government Finance. The bill allows assessors to employ professional appraisers to assist with annual adjustments. The bill also allows use of the county reassessment fund for costs related to annual adjustments, and provides for adjustments to the levy for the fund for that purpose. Additionally, the bill prohibits an appraiser or a technical advisor that serves a township or county from representing taxpayers.

Effective Date: Upon passage.

Explanation of State Expenditures: Under current law, annual adjustments to real property assessed values will begin with March 1, 2005, assessments for taxes payable in 2006. The Department of Local Government Finance (DLGF) has adopted a rule establishing a system for annually adjusting the assessed value of real property to account for changes in value in those years since a general reassessment of property last took effect.

Under current law, the adjustment system must:

- (1) First take effect with 2005 assessments, payable in 2006;
- (2) Use objectively verifiable factors used in mass valuation techniques that are reasonably expected to affect the value of real property in Indiana;
- (3) Use as many adjustment percentages and whatever categories of percentages the DLGF finds necessary to achieve objectively verifiable, updated, just valuations of real property; and
- (4) Prescribe procedures, including computer software programs, that permit the application of the adjustment percentages in an efficient manner by assessing officials.

Under this proposal:

- (1) The adjustments would first take effect with 2006 assessments, payable in 2007, a one-year delay.
- (2) Assessing officials would reevaluate factors that affect value, compute factors, and use mass appraisal techniques to estimate updated values.
- (3) There is no specific requirement concerning the use of a certain number of adjustment percentages or categories.
- (4) Computer software programs would not have to be prescribed.
- (5) Assessing officials would be required to provide taxpayers with a notice of assessment increase.
- (5) Assessing officials would be required to continue work to satisfy the deadlines contained in the rule.

Under current law, the additional PTRC and Homestead Credit payments that are attributable to the annual adjustments are estimated at \$47.7 M in CY 2006. The delay under this proposal would result in state savings of that amount in CY 2006. The savings would amount to an estimated \$15.9 M in FY 2006 and \$31.7 M in FY 2007. There would be no change in state expenditures after FY 2007.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

Explanation of State Revenues:

Explanation of Local Expenditures: Under current law, the administration of annual AV adjustments by local assessors is estimated to cost up to \$6 M, statewide. If the effective date of the adjustments is delayed, some of the additional duties that local assessors will have might be able to be delayed from 2005 to 2006. However, much of the work for March 1, 2006, adjustments will still have to be done in 2005. The delay could save some, but not all, additional expenses in CY 2005.

The assessment notice requirement would generate an additional expense for counties. There are approximately 3 million parcels of real property in the state. At the standard letter rate of 37 cents, postage could amount to \$1.1 M per year. There would also be additional printing and stuffing costs associated with the notices.

The bill allows money in the reassessment fund to be used to pay the costs of making annual adjustments and sales disclosure verification. The county council would be required to appropriate the necessary funds to pay for employment expenses related to annual adjustments. The bill also allows local assessors to petition the county fiscal body to increase the county reassessment fund levy to pay the cost of (1) a general reassessment, (2) sales disclosure verification, or (3) processing annual adjustments. If the county fiscal body denies the petition, the assessor may appeal to the DLGF. The DLGF will hear the appeal and determine whether the levy is necessary. The bill gives the DLGF authority to raise or lower the reassessment fund levy as it is related to the cost of making annual adjustments.

The county reassessment fund is subject to the county's maximum permissible levy. This bill does not grant any additional levy authority. Therefore, if the reassessment fund levy is increased, the levy of other controlled funds would have to be reduced by the same amount.

The cost of local homestead credits would be affected by the delay. Ten Indiana counties provide local homestead credits funded with proceeds from the County Option Income Tax. The cost of the local homestead credit will increase along with the state Homestead Credit under annual adjustments. The increase in CY 2006 under current law is estimated at \$3.9 M. The delay under this proposal would result in local homestead credit

savings of that amount in CY 2006. The amount spent on local homestead credits reduces the amount available for distribution to the civil taxing units in the county. So, the \$3.9 M savings would be distributed to local civil units.

Explanation of Local Revenues: Tax shifts between and within property classes that are associated with the annual adjustments would be delayed by one year under this proposal. Total local revenues would not be affected.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local assessors.

Information Sources: Fiscal analysis on administrative rule #02-0297 (50 IAC 21); Local Government Database.

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